

**COUNTY OF DEL NORTE,
CALIFORNIA**



**MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2008**

Mgt. Ltr.
6/10/09

THIS PAGE INTENTIONALLY LEFT BLANK

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

Transmittal Letter	1
Required Communication	2-3
Current Year Comments - Financial Statements	4-9
Current Year Comments - Single Audit	10
Status of Prior Year Findings - Financial Statements	11-12

THIS PAGE INTENTIONALLY LEFT BLANK

To the Board of Supervisors
County of Del Norte
Crescent City, California

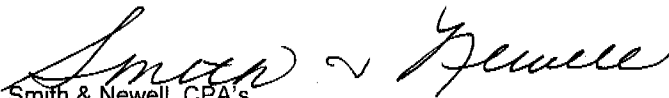
We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Del Norte, Crescent City, California (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the County about matters that are important to the County's oversight role. We previously reported on internal control and compliance in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated April 29, 2009.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The following report summarized all our comments and suggestions including immaterial noncompliance, control deficiencies that are not considered significant deficiencies or material weaknesses and other matters involving internal control.

We will review the status of these comments during our next audit engagement. We have already discussed these findings and recommendations with the County management, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of management, others within the organization, the Board of Supervisors and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.


Smith & Newell, CPA's
Yuba County, California
April 29, 2009

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Del Norte, California, for the year ended June 30, 2008, and have issued our report thereon dated April 29, 2009. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered County of Del Norte's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether County of Del Norte's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about County of Del Norte's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on County of Del Norte's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on County of Del Norte's compliance with those requirements.

2. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

3. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements are depreciation of capital assets and estimated cost of infrastructure assets.

Management's estimate of depreciation is based on estimated or actual historical cost and the useful lives of such assets. We evaluated the key factors and assumptions used to develop depreciation estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

4. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

5. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

6. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

7. Management Representations

We have requested certain representations from management that are included in the management representation letter.

8. Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

9. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the County and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-01 STATEMENT ON AUDITING STANDARDS NO. 112 (Financial Reporting: Significant Deficiency)

Condition

Currently, the County relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP).

Cause

Prior to issuance of SAS 112, the County was able to rely on the external auditors to assist with recording certain financial transactions and with preparation of the financial statements and related notes without being subject to control deficiencies.

Criteria

In May 2006, a new auditing standard, Statement on Auditing Standard No. 112, Communicating Internal Control Related Matters Identified in an Audit (SAS 112), was issued. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be part of the County's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The County should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting principles. To carry out this responsibility, the County must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the financial records, retaining staff competent in financial reporting and related oversight roles, and adequate design of internal control over the preparation of the financial statements.

Effect of Condition

The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the entity's financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to assist with recording certain financial transactions and to ensure its financial statements are in accordance with GAAP, the County is considering the external auditors a part of its internal controls over the preparation of the financial statements.

Recommendation

The County may consider the following possible actions:

1. Provide training opportunities for its accounting staff that would enable them to become more familiar with generally accepted accounting principles as well as general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.
2. Hire an external accountant to consult with for proper transaction recording for unusual transactions and to confirm that the financial statements and related disclosures are in accordance with GAAP.
3. Take no action. The County may find that the costs outweigh the benefits to adhere to this standard. No action will continue to result in a significant deficiency in the County's internal controls.

Corrective Action Plan

The County is considering implementing recommendation number 1 if that is financially feasible.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

**08-FS-02 RECONCILIATION OF AUDITOR'S CASH BALANCE TO TREASURER'S CASH BALANCE
(Financial Reporting: Material Weakness)**

Condition

At the time of our fieldwork, we noted that a \$225,735 reconciling item was omitted from the reconciliation, and that cash per the County general ledger had been understated by that amount for the entire year.

Cause

Auditor's cash balance is not reconciled to the Treasurer's cash balance on a regular basis and there is no review of the reconciliation process.

Criteria

Good internal control over cash requires that a reconciliation between the Treasurer's cash and the County's general ledger be completed in a timely manner and that all differences be resolved. In addition, good internal control requires that there be cross training and review of significant accounting functions.

Effect of Condition

The risk of errors or irregularities occurring and not being resolved in a timely manner is increased when the cash reconciliation is not completed in a timely manner and when there is no cross training or review procedures in place.

Recommendation

We recommend that all differences in the cash reconciliation be resolved in a timely manner. In addition, we recommend that procedures be put in place to provide cross training for the cash reconciliation process as well as procedures for an adequate review process.

Corrective Action Plan

The \$225,735 was included in the monthly cash reconciliation spreadsheet, however when the printout was given to external auditors rows 1 & 2 were not printed. This amount was shown as a separate item on reconciliation because it was part of a prior year audit adjustment that reduced the cash amount in Solid Waste fund but without an offsetting entry to another fund.

08-FS-03 ADJUSTING JOURNAL ENTRIES (Financial Reporting: Significant Deficiency)

Condition

During our audit we noted the trial balance as presented to us for audit contained unadjusted balances or balances which contained material misstatements and required adjustments.

Cause

The County may be leaving too many adjustments for year end. Too many adjustments left until year end can result in incorrect balances and late availability of accurate accounting records.

Criteria

Good internal control requires that all account balances be correctly adjusted and that all adjustments be recorded in a timely manner.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-03 ADJUSTING JOURNAL ENTRIES (Financial Reporting: Significant Deficiency) (CONTINUED)

Effect of Condition

There were material misstatements in the accounting records presented to us for audit.

Recommendation

We recommend that all accounts be reviewed for accuracy and adjusted in a timely manner.

Corrective Action Plan

The County provided external auditors with copies of any additional journal entries and/or transfers that were done after the trial balances were provided to them. We will continue to research account balances and make sure they are correct for audit.

08-FS-04 LACK OF TIMELINESS IN FINANCIAL REPORTING (Financial Reporting: Significant Deficiency)

Condition

The financial records were not ready for audit in a timely manner and prior year financial records have also not been ready for audit in a timely manner. The annual audit cannot be scheduled until the financial records are available, and consequently, the annual audit cannot be completed in a timely manner.

Cause

The County has not completed the year end accounting process in a timely manner to enable the audit fieldwork to be scheduled so that the reports can be submitted within the required time frames.

Criteria

Good internal control requires that year end accounting processes be completed in a timely manner so that the audit can be completed in a timely manner. OMB Circular A-133 section .320 requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Effect of Condition

The County has not complied with OMB Circular A-133 section .320.

Recommendation

We recommend that the County evaluate reasons for the failure to provide complete and accurate financial records in a timely manner.

Corrective Action Plan

The County agrees with this recommendation. However, due to being short one employee and having the auditor out for a couple months due to surgery, things did not get done timely.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-05 ASSESSMENTS RECEIVABLE (Financial Reporting: Significant Deficiency)

Condition

We noted that assessments receivable of \$2,978,846 in CSA #1 were misstated and had not been reconciled or adjusted to actual at June 30, 2008.

Cause

Assessment balances were not being reconciled to the amortization schedules.

Criteria

To facilitate good internal accounting control, all assessments receivable and other receivables should be reconciled to supporting documentation on a monthly basis.

Effect of Condition

Improper accounting procedures result in the possibility of errors and irregularities occurring and not being detected in a timely manner.

Recommendation

We recommend that assessments receivable be reconciled to the supporting documentation on a regular basis and any adjustments be made in a timely manner.

Corrective Action Plan

The County agrees with this recommendation and the Community Development Department and Auditor's office is working with the Information Technology department to implement a program to reconcile the assessment's receivable.

08-FS-06 ACCRUED SALARIES (Financial Reporting: Material Weakness)

Condition

The County did not record the accrued payroll liability at June 30, 2008. This resulted in an understatement of liabilities on the balance sheet and an understatement of salaries and benefits on the statement of activities.

Cause

The County has historically recorded twenty-six pay periods on its general ledger rather than recording the actual payroll expense for the year including the accrued liability which is due at June 30 but not paid until July of the next year.

Criteria

Generally Accepted Accounting Principles require modified accrual accounting for governmental funds and full accrual accounting for proprietary funds.

Effect of Condition

The County financial statements presented 26 pay periods instead of the actual payroll expense for the year and did not accurately including the accrued payroll liability at June 30, 2008.

Recommendation

We recommend that the County record the accrued payroll liability as of June 30, of each year.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-06 ACCRUED SALARIES (Financial Reporting: Material Weakness) (CONTINUED)

Corrective Action Plan

The County will look into this recommendation and will evaluate the impact of recording and/or not recording the liability.

08-FS-07 CAPITALIZATION POLICY

Condition

During our audit we noted that the County's capitalization policy did not address infrastructure or estimated useful life of capital assets for depreciation purposes.

Cause

The County has not updated their capitalization policy to address infrastructure or estimated useful lives of capital assets.

Criteria

Good internal control over capital assets requires that a written policy and methodology be developed and followed that will minimize errors.

Effect of Condition

The County does not have a written policy which addresses infrastructure or capital asset estimated useful life.

Recommendation

We recommend that the County develop a capitalization policy that addresses infrastructure assets and capital asset estimated useful life.

Corrective Action Plan

The County agrees with this recommendation.

08-FS-08 CASH WITH FISCAL AGENT

Condition

During our audit we noted that although the County had adjusted the cash with fiscal agent activity for the 97 COPs and the 99 COPs, some of the activity was recorded directly to fund balance.

Cause

The County did not correctly record the activity in the cash with fiscal agent accounts on a regular basis.

Criteria

Good internal control requires that all activity in the cash with fiscal agent accounts held in the County's name be recorded in the County general ledger and be recorded in current year activity, not posted to fund balance.

Effect of Condition

The County did not correctly record the cash with fiscal agent activity on the general ledger.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-08 CASH WITH FISCAL AGENT (CONTINUED)

Recommendation

We recommend that the County record all cash with fiscal agent activity on the general ledger on a regular basis through current year activity rather than directly to fund balance.

Corrective Action Plan

The County agrees with this recommendation. The cash with fiscal agent for both COP's was reconciled to the bank statements which included all the accounts for both the 1997 and 1999 COP.

08-FS-09 STATE CONTROLLER'S REPORT

Condition

During our audit we noted that as of the last day of fieldwork on January 23, 2009, the State Controller's Financial Transaction Report had not been filed. This was a prior year recommendation.

Cause

The County did not file the State Controller's Report for the fiscal year ended June 30, 2008 in a timely manner.

Criteria

Government Code Section 53891 requires completed financial reports to be submitted to the State Controller within 90 days after the close of the fiscal year. However, financial reports filed in the electronic file format prescribed by the State Controller may be submitted within 110 days after the close of the fiscal year. This year, failure to submit the financial report in electronic formation by October 20, 2007 could result in a forfeiture of up to \$5,000.

Effect of Condition

The County was not in compliance with the State Controller's *Office Counties Financial Transaction Report* filing requirement.

Recommendation

We recommend that the Counties Financial Transactions Report be completed and filed in a timely manner as prescribed by Government Code Section 53891.

Corrective Action Plan

The County agrees with this recommendation. However, due to being short one employee and having the auditor out for a couple months due to surgery, things did not get done timely. Our office was in contact with the State Controller's office regarding this report and when we could get it filed. The report will be filed timely in the future.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

08-SA-01

Name:	ADOPTION ASSISTANCE
CFDA #:	93.659
Federal Grantor:	U.S. Department of Health and Human Services
Pass Through Entity:	State Department of Social Services
Award No.:	N/A
Year:	June 30, 2008

Condition

Title 22 California Code of Regulations Section 35331(a) requires that the determination of the child's eligibility for adoption assistance be documented in the case record on the Eligibility Certification - Adoption Assistance Program form (the AAP-4). The County does document eligibility on the AAP-4 by the completion of the form, which is signed by the "Authorized Official of Public Adoption Agency". However, a second signature is required on the AAP-4. The "Authorized Official of County Welfare Department" must sign the AAP-4 and check the appropriate box, which indicates FFP eligibility or non-eligibility.

On nine of twenty-five cases tested, the AAP-4's were completed and signed by the "Authorized Official of Public Adoption Agency" but the AAP-4's were not signed by the "Authorized Official of County Welfare Department," which is the County eligibility staff. We also noted that four of the case files did not have the AAP-4.

Perspective

Appropriate training or review procedures concerning required forms completion was inadequate.

Criteria

The County is not in compliance with Title 22 California Code of Regulations Section 35331(a).

Effect of Condition

When the AAP-4 is not signed by the Authorized Official of County Welfare Department and/or the federal eligibility or non-eligibility box is not marked, the likelihood of errors in eligibility determination increase.

Questioned Costs

No costs are questioned. All seven cases were eligible for federal Adoption Assistance. The problem was that their eligibility was not properly documented, as required, on the AAP-4.

Recommendation

We recommend that the County require that the AAP-4's be signed by the "Authorized Official of County Welfare Department" (County eligibility staff) and that this person check the appropriate box showing determination of FFP eligibility on the bottom of this form. We also recommend that the County incorporate into their review process procedures to ensure that the AAP-4's are properly completed and executed.

Corrective Action Plan

The County agrees with this recommendation. The four cases are now in compliance after contacting the State Adoptions Bureau. Employees have also had additional training on the proper procedure for completing the forms.

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-01	CAPITALIZATION POLICY Recommendation We recommend that the County develop a capitalization policy that addresses infrastructure assets and capital asset estimated useful life. Status Not Implemented
07-02	CASH WITH FISCAL AGENT Recommendation We recommend that the County record all cash with fiscal agent activity on the general ledger on a regular basis through current year activity rather than directly to fund balance. Status Partially Implemented
07-03	ADJUSTING JOURNAL ENTRIES Recommendation The County agrees with this recommendation. Controls have been put in place within the office to make sure that all entries have the appropriate supporting documentation. Status Partially Implemented
07-04	STATE CONTROLLER'S REPORT Recommendation We recommend that the Counties Financial Transactions Report be completed and filed in a timely manner as prescribed by Government Code Section 53891. Status Not Implemented
07-05	ASSESSMENTS RECEIVABLE Recommendation We recommend that all assessments receivable be reconciled to the supporting documentation on a monthly basis and any adjustments be made timely. Status Not Implemented

**COUNTY OF DEL NORTE, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-06	STATEMENT ON AUDITING STANDARDS NO. 112 Recommendation We recommend that the County take all steps necessary to ensure that staff is in compliance with Statement on Auditing Standards No. 112 requirements. Status Not Implemented